

INCOME AND WEALTH IN THE SOUTH

A STATE OF THE SOUTH INTERIM REPORT

MDC

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MDC, INC.

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**INCOME AND WEALTH
AND THE STATE OF THE SOUTH**

Income and Wealth in the South is an interim report of *The State of the South*, MDC's biennial analysis of the region's economic and workforce trends with an agenda for meeting opportunities and addressing challenges. Additional copies of *Income and Wealth* are available for \$5 each from:

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PREFACE

Two years ago, MDC Inc. published *The State of the South*, a report on how the people of the region had progressed — and lagged — in employment, earnings, and education. The report recommended an action agenda, pointing to the need for education beyond high school and for adapting higher education to respond to a dynamic economy.

The response to *The State of the South* showed that Southern leaders have a thirst for usable information and analysis, and that data will drive action. In addition to widespread coverage in the region and around the world, the report attracted the special attention of state government officials, administrators of universities and community colleges, and officers of an array of foundations and nonprofit agencies.

The State of the South raised tough questions relating to the South's march toward racial equity. "Race is the South's oldest, thorniest, most highly charged dilemma," we wrote in the 1996 report. We went on to observe, "Race still matters in economic mobility, but it appears to matter less these days than education, gender and family structure." Some of our colleagues urged us to elaborate. In particular, we have been challenged to take a longer view and to look at wealth as well as income.

The purpose of this paper is to respond to those questions that need to be addressed in more depth. The first section extends our analysis of family and household income. The second section offers a look at disparities in wealth.

In preparing this paper, MDC drew upon the Current Population Survey of the U.S. Census Bureau and a recent report by the

Council of Economic Advisers. MDC is also indebted to two scholars:

- Professor Timothy Smeeding of the Luxembourg Income Study Group provided data on disposable household income in the South, the nation, and other countries.
- Edward N. Wolff, professor of economics at New York University and author of *Top Heavy: The Increasing Inequality of Wealth in America and What Can Be Done About It* provided data on the distribution of family income and wealth in the South and the United States.

This paper is intended as a description of a selected set of trends, not a prescription of remedial actions. We ask you to read it as a supplemental report, as we work toward publication of our second *State of the South* report, which is due to be released in the early fall of 1998.

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SUMMARY OF FINDINGS

The South — a region once known for its endemic poverty — has seen substantial progress in the standard of living of its people over the past quarter-century. Family income has risen, and the middle class has mushroomed. Like the United States as a whole, however, the South has experienced growing inequality in the distribution of income, with a widening gap between rich and poor and a persistent gap between whites and minorities. The wealth gap between white and black Southerners continues to exceed the income gap, despite gains in wealth for both races.

INCOME: MAJOR FINDINGS

1. Over the past three decades, family income rose faster in the South than in the U.S. Black median income has risen especially fast in the South and now almost equals the national black median. However, a large gap persists between black and white median family income.
2. The Southern middle class is growing, both among whites and blacks.
3. At the same time, family income is becoming more concentrated in the hands of high-income white, black, and Hispanic families.
4. Disposable (after-tax) income is distributed more equitably than family income, but like family income, it is becoming more concentrated over time.
5. Compared to Southern whites, blacks and Hispanics derive more of their income from wages and salaries, and less from self-employment or investments.

WEALTH: MAJOR FINDINGS

1. Ownership of wealth is more concentrated than income. This is true for all racial and ethnic groups.
2. One in five Southern families has little or no wealth. This group includes 16 percent of white Southern families, two out of five black Southern families, and about half of Hispanic families.
3. Still, one-third of Southern black and Hispanic families have wealth in the middle and upper ranges, a significant increase over the last quarter of a century.

Note: In this report, “the South” is defined as the Census South: Alabama, Arkansas, Delaware, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

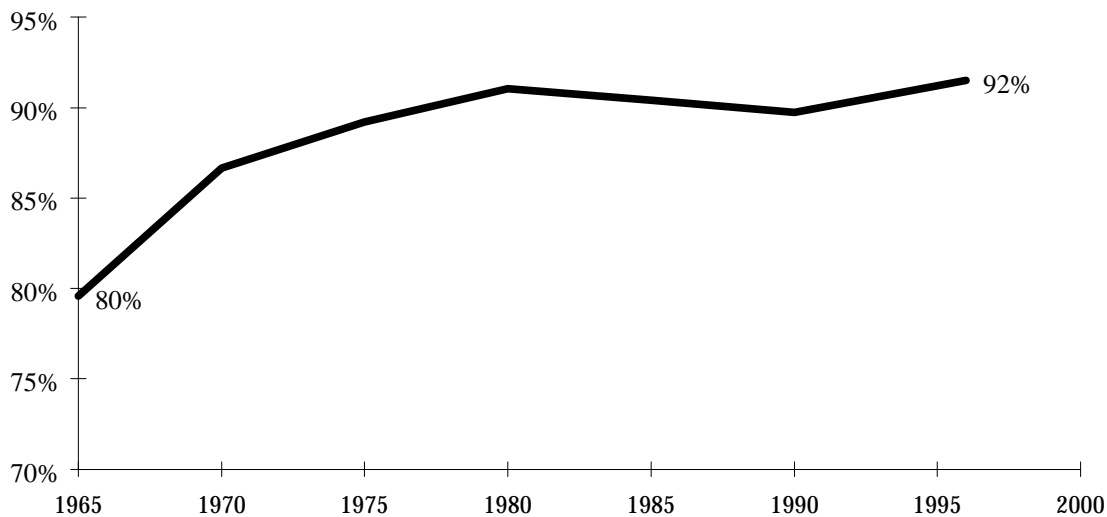
INCOME

FAMILY INCOME HAS RISEN RAPIDLY IN THE SOUTH.

Over the past three decades, families in the South have substantially narrowed the income gap with the nation. Median family income in the South now stands at 92 percent of the U.S. median, up from 80 percent in 1965. However, the narrowing of the gap has slowed since 1980. (See *Chart 1*.)

median for Southern blacks rose 29 percent. (See *Chart 2*.) Southern black family income now stands at 96 percent of the national median for black families.

Despite the rapid rise in Southern black family income, a wide gap persists between the income of white families on the one hand and black and Hispanic families on the other hand. In the South, median black family income in 1996 was just \$25,552, or 61 percent of the Southern



Source: Current Population Survey
Chart 1
Median Family Income
South as a Percent of the U.S.

The gap has narrowed, of course, because family income has risen faster in the South than in the nation. Between 1970 and 1996, the South's median family income rose 19.1 percent— from \$32,489 to \$38,710 (in constant 1996 dollars). In contrast, the U.S. median rose only 12.8 percent — from \$37,485 to \$42,300.

The South's gain relative to the nation can be attributed partly to dramatic increases in Southern black family income. Over the past quarter of a century, while black family income rose in the South (and in the West), it fell in other regions. Nationally, median black family income went up just 11 percent since 1970, while the

white median. The median family income for Hispanic Southerners was \$26,362, or 63 percent of the white median. (Hispanic Southerners, however, have a slightly higher median income than their Hispanics in the rest of the country.)

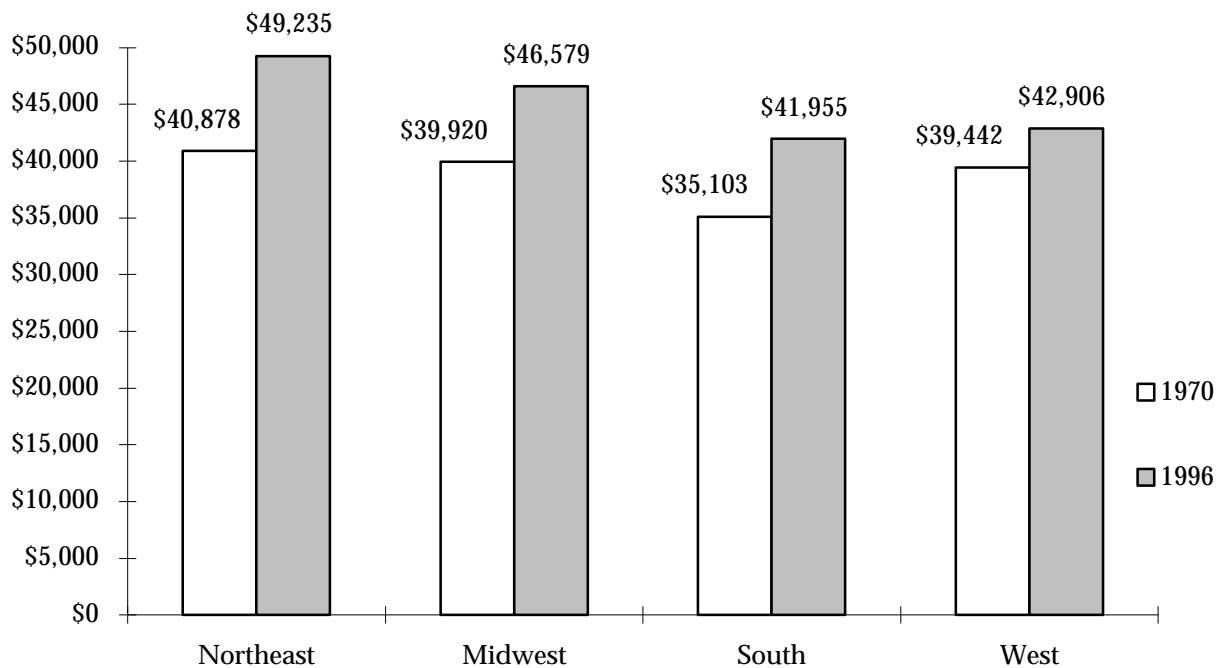
Like blacks, white families in the South have seen their income rise relative to whites in other regions. (See *Chart 3*.) Between 1970 and 1996, median family income for white Southerners rose 20 percent, to \$41,955, while the national white median rose 15 percent, to \$44,756. As a result, white Southerners' income now stands at 94 percent of the national median for white families.

Chart 2
Median Black Family Income by Region
Constant 1996 Dollars



Source: Current Population Survey

Chart 3
Median White Family Income by Region
Constant 1996 Dollars



Source: Current Population Survey

For many Southern families, the effective income gap is even narrower when the cost of living is taken into consideration. In 1996, the cost of living in such disparate Southern cities as Birmingham, Charleston, Knoxville, Jackson, Little Rock and Houston was below the national average. Just a few Southern cities exceeded the national cost of living. (See *Table 1*.)

THE SOUTHERN MIDDLE CLASS IS GROWING.

Compared to pre-World War II days, the South is now solidly middle class. And the Southern middle class is expanding.

One way to examine the growth of the middle class is to divide families into income quintiles, with the lowest quintile including the 20 percent of families with the lowest income and the top quintile representing the 20 percent with the highest income. In 1996, the top three quintiles nationally included all families with income above \$29,510. Membership in these three quintiles can be considered a proxy for “middle class or above” status.

In the 25 years ending in 1994, the South showed a substantial gain in the proportion of its families in the top three U.S. income quintiles. The proportion of Southern families in the top three U.S. quintiles rose from 50 to 56 percent. The number of Southern families in these quintiles grew from 7.8 million to 12.3 million.

The number of Southern black families in the top three quintiles is growing, but blacks remain severely underrepresented in this “middle class and above” group. The number of Southern black families in the top three U.S. quintiles increased from 1.1 million in 1970 to 1.7 million in 1994. However, those 1.7 million families in 1994 represented just 35 percent of all Southern black families. (See *Chart 4*.)

During the same period, the number of Southern white families in the top three quintiles rose from 6.8 million to 10.7 million. By 1994, 64 percent of all Southern white families could be classified “middle class and above.”

INCOME INEQUALITY IS INCREASING.

Economists often measure income inequality (as well as wealth inequality) using the “Gini

Table 1
Cost of Living Index,
for the U.S. and selected
Southern cities

Little Rock, AR	86.9
Oklahoma City, OK	90
Houston, TX	93.8
Louisville, KY	94
New Orleans, LA	94.9
Memphis, TN	95.4
Jackson, MS	95.5
Charleston, SC	97.1
Knoxville, TN	97.5
Birmingham, AL	98.4
Dallas, TX	98.9
Charlotte, NC	99
Atlanta, GA	99.5
U.S.	100
Charleston, WV	100.4
Austin, TX	101.3
Tallahassee, FL	102.3
Raleigh, NC	103
Richmond, VA	103
Miami, FL	107.7
<i>Source: ACCRA, Alexandria, VA</i>	

coefficient.” The higher the Gini coefficient, the greater the concentration of income (or wealth) in the hands of the most well-to-do families or households. A Gini of “1” would indicate that all income was held by a single family, while “0” would indicate income was equally distributed among all families.

In its 1998 *Economic Report to the President*, the Council of Economic Advisers reported on

the rise in income inequality in the U.S. The Council found that nationally, “Since the early 1970s, income inequality has increased not only overall but also within racial groups.” An increasing proportion of the incomes of black, white, and Hispanic families flows to the highest income families within each racial group. This trend is shown by the rise in the Gini coefficients for all racial and ethnic groups since the 1970s. (See *Chart 5, page 6.*)

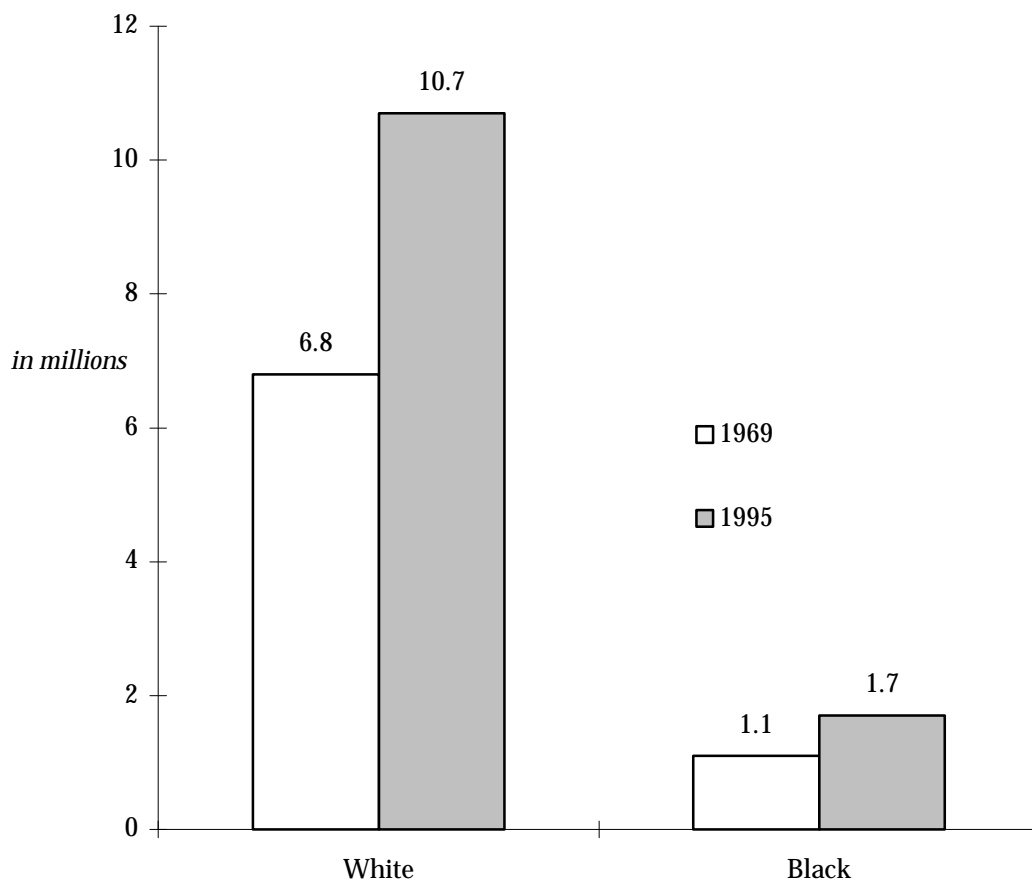
For most of the last half-century, income was distributed more equally in the South than in the U.S. High-income families were few and far between, and most of the region’s income was earned by the large number of middle class and working class families. However, along with the region’s increasing affluence over the past quarter-century has come increasing inequality. By 1995, distribution of income in the South was similar to that of the nation.

DISPOSABLE INCOME IS ALSO BECOMING MORE CONCENTRATED.

Disposable income provides another window through which to look at Southern well-being. Disposable income takes into consideration the reduction of households’ spending power through taxes and the increase in spending power through transfer payments.

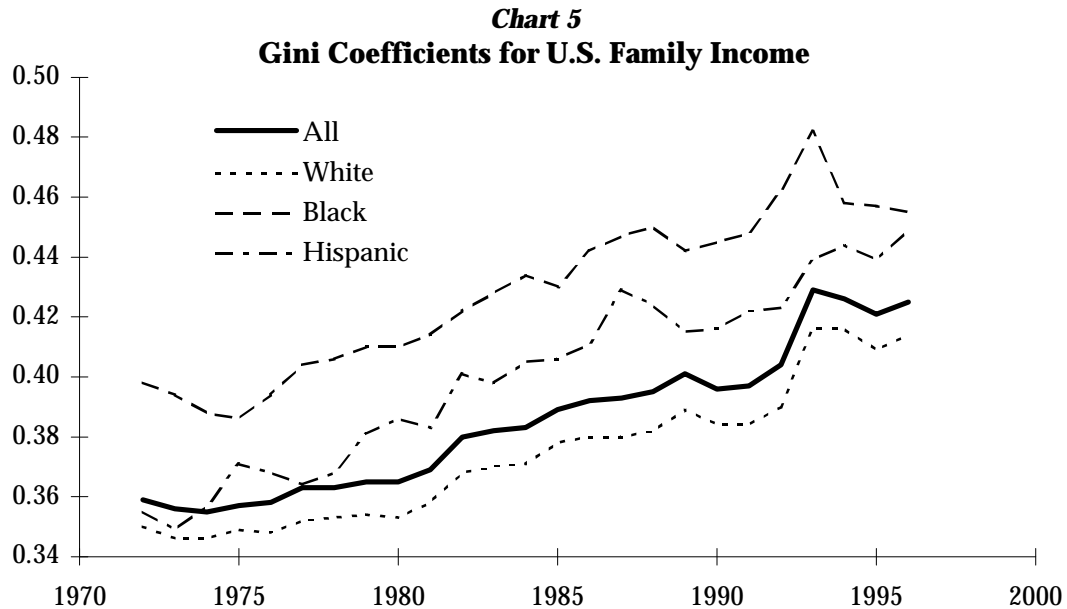
Disposable income is more equally distributed than overall household or family income. This is so because the United States has a progressive income tax that requires those who earn more to pay more, and because transfer payments lift the purchasing power of the poor and the elderly. In the South, the Gini coefficient for disposable household income is .371, well below the Gini for family income. The degree of inequality in disposable household income is approximately the same in the South and the U.S.

Chart 4
Number of Southern Families in the Top Three U.S. Income Quintiles, By Race



Source: Edward Wolff

racial/ethnic groups has increased. Since 1970,



Source: Current Population Survey

In spite of the progressive income tax and transfer payments, U.S. disposable income (like overall family income) is becoming more concentrated in high-income households over time. Since 1979, the Gini for disposable income has risen by about .5 percent each year.

The Luxembourg Income Study Group has made international comparisons of inequality in disposable income. Despite the leveling effect of federal and state taxes and transfer payments, the U.S. and the South have more unequal distribution than most industrial nations. (See *Chart 6*.)

COMPONENTS OF INCOME DIFFER AMONG RACIAL/ETHNIC GROUPS.

In the South as well as the U.S., black and Hispanic families derive a larger share of their income from wages and salaries than do white families, and they derive less from other sources such as self-employment or investments. In 1995, wages and salaries comprised 86 percent of family income for Southern blacks, 85 percent for Hispanics, and 69 percent for whites.

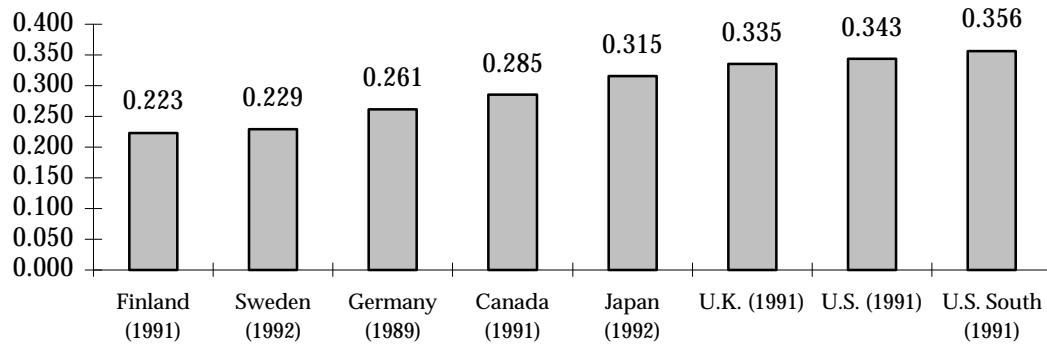
Furthermore, over the past 25 years this difference between whites and other

Southern blacks and Hispanics have derived an increasing proportion of their income from wages and salaries, while whites have earned an ever greater share of their income from self-employment and investments.

Today, 22 percent of white Southerners' income comes from investments or self-employment. Black and Hispanic Southerners derive a negligible proportion of their income from these sources, although they do receive a significant amount of retirement income. (See *Chart 7*.) Black and Hispanic families in the South receive less income from self-employment and investments than similar families in the rest of the country.

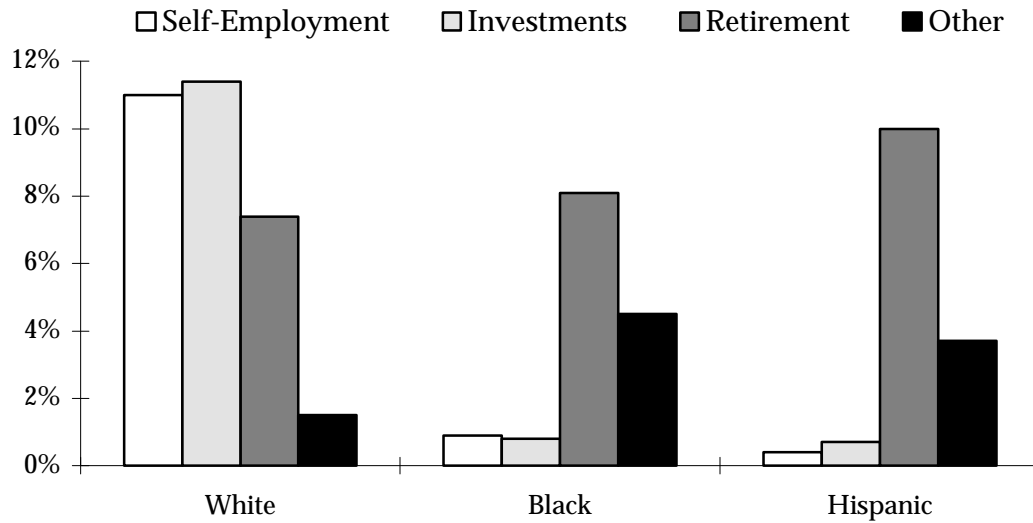
Public assistance, while only a small part of overall family income, is an important source for many families and is more important among black families than families in other racial or ethnic groups. However, it is noteworthy that all race/ethnic groups in the South — whites, blacks, and Hispanics — are less dependent on public assistance than their counterparts in other U.S. regions.

Chart 6
Gini Coefficients for Disposable Income:
U.S. and Other Developed Countries



Source: Timothy Smeeding, Luxembourg Income Study Group

Chart 7
Percent of Family Income From Sources other than Salary for the South, 1995



Source: Edward Wolff

WEALTH

WHAT IS “WEALTH”?

By wealth, we mean net worth — the total value of a family’s material and financial assets minus its liabilities at a particular point in time. Family assets may include equity in a residence, automobile, business, or other property, as well as cash, stocks, bonds, and other financial assets. Liabilities may include a mortgage, credit card debt, and other debts.

Although education is not included in net worth, it is one of a family’s most valuable assets. Education opens earning opportunities and is one of the principal determinants of income. Thus, education provides a bridge to both income and wealth. For many people in the South who own few or no assets, development of earning capacity through education provides the only realistic means of increasing income and wealth.

Net worth (wealth) is measured as of a particular time because the value of assets changes over time. The value of stocks or land can go down, as well as up. Wealth is important because it begets wealth, and wealth also is a source of income. (As noted in *Chart 7*, 12 percent of white Southern family income comes from investments.) In addition, wealth is an important measurement of overall family well-being.

For white families (in the South and other regions), financial assets are the largest component of net worth, followed by equity in the family home, business equity, and other real estate. For black and Hispanic families, the family home is by far the largest component of net worth.

MIXED PROGRESS FOR SOUTHERN FAMILIES.

Southern families own less wealth than families in other regions. In fact, the wealth gap between the South and the U.S. is greater than

the income gap, and it may be increasing. In 1970, median family net worth in the South was \$46,000 (in 1996 dollars), placing it at 84 percent of the national level. In 1994, the median net worth of Southern families stood at \$53,000, just 79 percent of the national median.

In contrast to median net worth, average net worth in the South almost equals the national average.* In 1994, average net worth for Southern families was \$229,000; for U.S. families the average was \$250,000. The gap in average wealth between the South and the U.S. has diminished over the past 25 years, while the gap in median wealth has widened. Although there is a growing number of families in the South who have net worth as high as the wealthiest families anywhere in America, the typical Southern family appears to be losing ground relative to all American families in the accumulation of wealth.

OWNERSHIP OF WEALTH IS HIGHLY CONCENTRATED.

Wealth is owned disproportionately by the wealthiest families of all race/ethnic groups and disproportionately by white families.

In the South, as well as the United States as a whole, there is a huge gap in net worth between white families and black or Hispanic families. In 1994, median net worth for Southern white families was \$68,660. For Southern black families, the median was \$18,800.

Racial differences in ownership of wealth are much greater than differences in family income. In fact, the Council of Economic Advisors noted that “very substantial wealth

* It is useful to contrast the median to the average, or mean, because they tell us different things about the distribution of wealth. The median represents the middle — line up all families from poorest to richest, and the middle family’s income is the median. A few families with extremely high wealth will not raise the median of the group, but they will raise its average.

gaps between whites on the one hand and blacks and Hispanics on the other are found even among families with similar income.” The income gap between Southern white and black families is roughly \$14,000. The gap in median wealth, in contrast, is almost \$50,000. (See *Chart 8*.) This wealth gap has remained constant since 1969, despite an increase in median net worth for both black and white Southerners.

The black-white wealth gap appears somewhat smaller in the South than in the U.S. The median net worth of Southern white families is about four times the median of Southern black families. Across the U.S., the white family median is about five times the black median.

Gini coefficients (explained on pages 4-5) provide a means to examine the concentration of wealth. In 1994, the Gini coefficient for Southern family wealth was 0.812, essentially unchanged since 1969. Family wealth appears somewhat more concentrated in the South than in other regions. And the distribution of wealth is slightly more concentrated among white families in the South than among blacks.

PROGRESS AND LINGERING INEQUALITY.

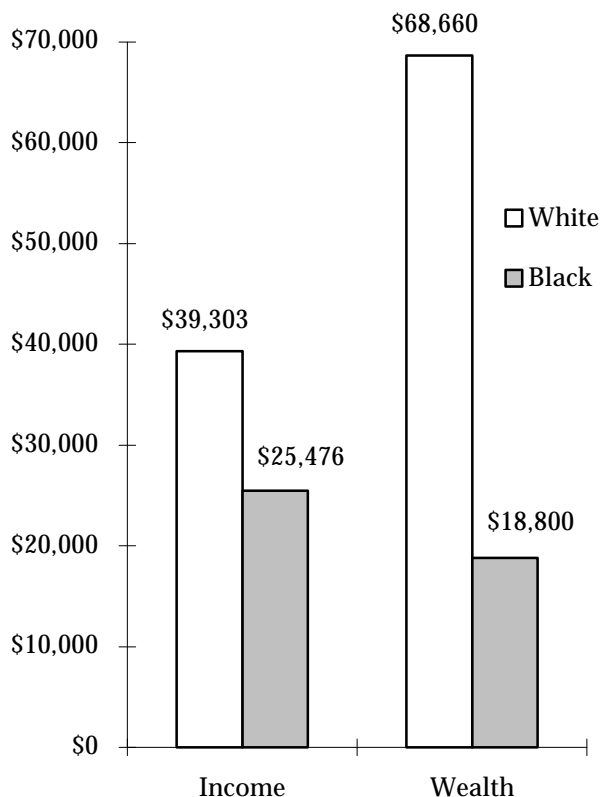
Another, related way to analyze wealth is to distribute families into quintiles — that is, to place them in five equally sized groups from lowest to the highest net worth. In 1994, the bottom quintile nationally included all families with net worth below \$6,730 — less than half the price of a new automobile. More than half the families in the bottom quintile had negative net worth — their debts exceeded their assets.

In 1969, nearly 44 percent of Southern black families were in the bottom U.S. wealth quintile. By 1995, this proportion dropped slightly — to 42 percent. The proportion of white Southern families that fell into the bottom fifth dropped slightly from 18 percent to 16 percent in the same period. (See *Chart 9, page 10*.)

Families in the top three quintiles had net worth above \$42,700 in 1994. The proportion of Southern white families in the top three U.S. quintiles has remained a constant 60 percent over the last quarter of a century.

The proportion of Southern black families in the top three quintiles has risen from 28

Chart 8
Median Family Income and Wealth By Race
South, 1995



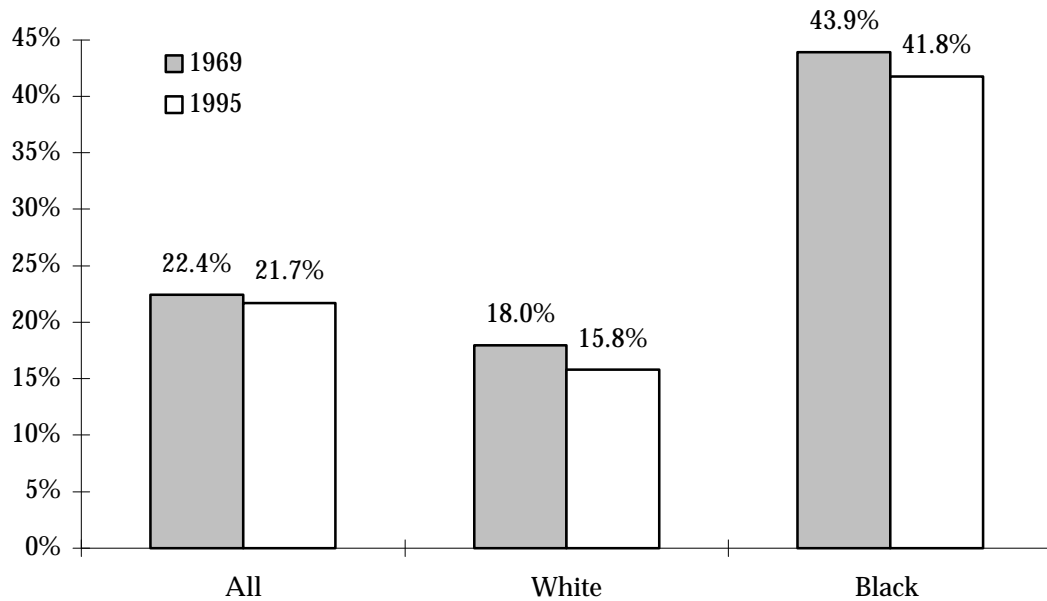
Source: Edward Wolff and Current Population Survey

percent to 35 percent (matching the rise for blacks across the U.S.). This represents progress since 1970 — one-third of Southern black families now have net worth over \$42,700. But Southern blacks remain severely underrepresented in the “middle class and above” group as defined by net worth. (See *Chart 10, page 10*.)

The economic well-being of Southern families depends on both their income and wealth. Higher income provides the opportunity to accumulate wealth, and higher wealth can generate income as well as financial security.

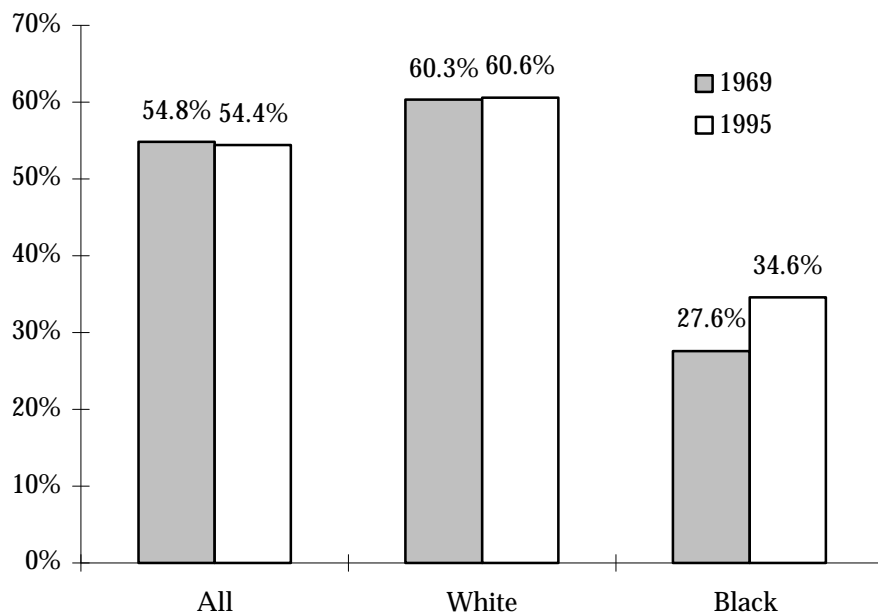
In the U.S., both income and wealth are becoming more unevenly distributed within and among racial/ethnic groups. Because of federal and state tax and income transfers, disposable income is distributed more equally than family income. And family income is distributed more equally than wealth.

Chart 9
Percent of Southern Families in Bottom U.S. Wealth Quintile, by Race



Source: Edward Wolff

Chart 10
Percent of Southern Families in Top Three U.S. Wealth Quintiles, by Race



Source: Edward Wolff

CONCLUSION

The good news is that median family income in the South is increasing — and the region is narrowing a long-standing gap with the rest of the nation. This family-income gain represents real progress for the South.

The bad news is that similar progress is not occurring in the ownership of wealth. Although the median level of wealth owned by families in the South is increasing, the gap between the region and the nation is widening.

There is good news in the solid evidence that the South has an expanding middle class, among both blacks and whites. There is bad news, unfortunately, in the combination of growing income inequality and lingering substantial wealth inequality.

In the United States, both income and wealth are becoming less equally distributed within and among racial and ethnic groups. As incomes have increased in the South, the distribution of those gains has become more like the U.S. distribution — that is, a disproportionate share of the increase has accrued to families in the highest income levels.

Of particular concern is the persistence of a large number of families, especially minorities, with little or no wealth. This situation represents a difficult, yet crucial, challenge to Southern policymakers who seek a higher quality of life and well-being for the people of the region. It is a challenge that demands both “income” strategies and “wealth” strategies, because the two are interrelated. Policies that lead to wider home ownership, for example, address the wealth component, but a homeowner still needs enough income to pay the electric bill. The

development of the potential workforce through education is essential to the goal of bolstering incomes. And it is clear that for poor people, the surest avenue to wealth is higher income.

As MDC and others have pointed out, education beyond high school has increasingly become a prerequisite to a middle-class standard of living. “Know more, earn more,” our *State of the South* report declared, and knowledge has risen in value as a generator of income. Education pays dividends for the South — increasing the economic wherewithal of its people and strengthening the civic bonds that create healthy communities.

A market economy rests on the presumption that individuals will be motivated to develop their potential skills and to employ them in their own self-interest. But people must be motivated by realistic opportunities — they need to see about them the link between education and personal prosperity. What too many Southerners see about them, unfortunately, is a growing gap between the people at the top and those at or near the bottom.

Even as the South makes historically significant economic gains, it is crucial that more Southerners be brought into the mainstream of the region’s development. While the enlargement of the middle class strengthens the South, widening disparities in income and wealth are not healthy for the region. The large number of Southern families with low income, little or no wealth, and limited vision of opportunities poses a great challenge to regional leaders.

MDC will have more to say about the intersections of earnings, race, gender, age, and education in its forthcoming second edition of The State of the South. For more information or to order a copy of the first edition, please contact: MDC, Inc., P.O. Box 17268, Chapel Hill, NC 27516-7268; telephone: (919) 968-4531, fax: (919) 929-8557; e-mail: lmckinni@mdcinc.org.